

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ESTILL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Estill County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$93,631 from the beginning of the year, resulting in a cash surplus of \$351,586, as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$135,000. Future collections of \$84,548 are needed over the next two years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$915,479 as of June 30, 2003. Future principal and interest payments of \$1,117,351 are needed to meet these obligations.

Kentucky Local Correctional Facilities Construction Authority lease and participation agreement totaled \$131,130 as of June 30, 2003. Future principal and interest payments of \$187,057 are needed to meet this obligation.

Operating lease agreements totaled \$157,207 as of June 30, 2003.

Report Comments:

- 2003-1 The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- 2003-2 The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen
- 2003-3 Salary Payments Should Be Made In Accordance With The Fiscal Court's Administrative Code
- 2003-4 The Fiscal Court Should Establish A Policy To Address Compensatory Time And Proper Supporting Documentation Should Be Maintained
- 2003-5 The Fiscal Court Should Pay Invoices Within Thirty (30) Days
- 2003-6 The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources
- 2003-7 The Fiscal Court Should Limit Expenditures For The First Half Of Each Fourth Year

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Wallace C. Taylor, Estill County Judge/Executive

Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Estill County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances-governmental fund type; the statement of cash receipts, cash disbursements, and changes in cash balances-proprietary fund type; and the related statement of cash flows-proprietary fund type for the year then ended. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Estill County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Estill County, Kentucky, as of June 30, 2003, the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2004, on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Estill County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2003-1 The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- 2003-2 The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen
- 2003-3 Salary Payments Should Be Made In Accordance With The Fiscal Court's Administrative Code
- 2003-4 The Fiscal Court Should Establish A Policy To Address Compensatory Time And Proper Supporting Documentation Should Be Maintained
- 2003-5 The Fiscal Court Should Pay Invoices Within Thirty (30) Days
- 2003-6 The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources
- 2003-7 The Fiscal Court Should Limit Expenditures For The First Half Of Each Fourth Year

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 25, 2004

ESTILL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Wallace C. Taylor	County Judge/Executive
Kevin Williams	Magistrate
Greg Hall	Magistrate
Darrell Johnson	Magistrate

Other Elected Officials:

Heather Combs	County Attorney
Jim Morris	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary Freeman	Sheriff
Deborah Barnes	Property Valuation Administrator
John Toler	Coroner

Appointed Personnel:

Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector
Renee Alexander	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ESTILL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 175,728	\$ 124,143	\$
Investments			
Restricted Cash-			
Public Properties Corporation Fund			58,702
Total Assets	<u>\$ 175,728</u>	<u>\$ 124,143</u>	<u>\$ 58,702</u>
<u>Other Resources</u>			
Amounts to Be Provided			
in Future Years for:			
Capital Lease	\$ 915,479	\$	\$
Bond Payments			76,298
Jail Participation	131,130		
Total Other Resources	<u>\$ 1,046,609</u>	<u>\$ 0</u>	<u>\$ 76,298</u>
Total Assets and Other Resources	<u>\$ 1,222,337</u>	<u>\$ 124,143</u>	<u>\$ 135,000</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Proprietary Fund Type	Totals (Memorandum Only)	
	Primary Government	
<u>Enterprise</u>		
\$ 1,391	\$ 301,262	
	58,702	
\$ 1,391	\$ 359,964	
\$	\$ 915,479	
	76,298	
	131,130	
\$ 0	\$ 1,122,907	
\$ 1,391	\$ 1,482,871	

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease (Note 6)	\$ 915,479	\$	\$
Public Properties Corporation			
Bond (Note 4)			135,000
Jail Participation (Note 5)	131,130		
Payroll Liabilities	8,378		
Total Liabilities	<u>\$ 1,054,987</u>	<u>\$ 0</u>	<u>\$ 135,000</u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$ 124,143	\$
Unreserved	167,350		
Total Equity	<u>\$ 167,350</u>	<u>\$ 124,143</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 1,222,337</u></u>	<u><u>\$ 124,143</u></u>	<u><u>\$ 135,000</u></u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Proprietary Fund Types	Totals (Memorandum Only)	
	Primary Government	
<u>Enterprise</u>		
\$	\$	915,479
		135,000
		131,130
		8,378
<u>\$</u>	<u>\$</u>	<u>1,189,987</u>
\$	\$	125,534
		167,350
<u>\$</u>	<u>\$</u>	<u>292,884</u>
<u>\$</u>	<u>\$</u>	<u>1,482,871</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

ESTILL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,204,370	\$ 987,441	\$ 91,242	\$ 40,523
Other Financing Sources:				
Transfers In	129,000	374,900	259,849	
Borrowed Money	100,000			
Capital Lease Proceeds	495,000			
Total Cash Receipts	<u>\$ 1,928,370</u>	<u>\$ 1,362,341</u>	<u>\$ 351,091</u>	<u>\$ 40,523</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,162,825	\$ 1,007,162	\$ 337,825	\$ 41,162
Other Financing Uses:				
Transfers Out	634,749	186,504		
Bonds:				
Principal Paid				
Interest Paid				
Jail Participation - Principal Paid			7,166	
Lease Principal	42,793			
Capital Lease - Principal Paid	97,828	52,021		
Total Cash Disbursements	<u>\$ 1,938,195</u>	<u>\$ 1,245,687</u>	<u>\$ 344,991</u>	<u>\$ 41,162</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (9,825)	\$ 116,654	\$ 6,100	\$ (639)
Cash Balance - July 1, 2002	20,342	32,894	1,053	771
Cash Balance - June 30, 2003	<u>\$ 10,517</u>	<u>\$ 149,548</u>	<u>\$ 7,153</u>	<u>\$ 132</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE
For The Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type				Debt Service Fund Type	
CSEPP Fund	State Grant Fund	CDBG Fund	CMRS Fund	Public Properties Corporation Fund	Totals (Memorandum Only)
\$ 306,156	\$ 127,780	\$ 17,000	\$ 22,175	\$ 641	\$ 2,797,328
				68,504	832,253
					100,000
					495,000
<u>\$ 306,156</u>	<u>\$ 127,780</u>	<u>\$ 17,000</u>	<u>\$ 22,175</u>	<u>\$ 69,145</u>	<u>\$ 4,224,581</u>
\$ 298,193	\$ 163,294	\$ 17,000	\$ 2,530	\$	\$ 3,029,991
			11,000		832,253
				60,000	60,000
				9,840	9,840
					7,166
					42,793
					149,849
<u>\$ 298,193</u>	<u>\$ 163,294</u>	<u>\$ 17,000</u>	<u>\$ 13,530</u>	<u>\$ 69,840</u>	<u>\$ 4,131,892</u>
\$ 7,963	\$ (35,514)	\$	\$ 8,645	\$ (695)	\$ 92,689
87,951	55,098			59,397	257,506
<u>\$ 95,914</u>	<u>\$ 19,584</u>	<u>\$ 0</u>	<u>\$ 8,645</u>	<u>\$ 58,702</u>	<u>\$ 350,195</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

ESTILL COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 2,496
Total Cash Receipts	\$ 2,496
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 1,554
Total Cash Disbursements	\$ 1,554
Excess of Cash Receipts Over Cash Disbursements	\$ 942
Cash Balance - July 1, 2002	449
Cash Balance - June 30, 2003	\$ 1,391

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Operating Income	\$ 942
Net Cash Provided By Operating Activities	\$ 942
Net Increase in Cash and Cash Equivalents	\$ 942
Cash and Cash Equivalents - July 1, 2002	449
Cash and Cash Equivalents - June 30, 2003	<u>\$ 1,391</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Estill County Public Properties Corporation as part of the reporting entity.

The Estill County Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists of fiscal court members and the debt service payments rely upon transfers from the County's funds. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the fiscal court.

Additional - Estill County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Estill County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Estill County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Estill County Special Revenue Fund Type includes the following county funds: CSEPP Fund, State Grant Fund, CDBG Fund and the CMRS Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Estill County Enterprise Fund Type includes the jail canteen fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Estill County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Estill County Fiscal Court: Estill County Industrial Development Authority, Estill County Water District, and the Estill County Library

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

The County is liable for the following bonds issued by the Estill County Public Properties Corporation dated August 5, 1996, in the amount of \$585,000. Principal is payable annually on August 1, and interest is payable semiannually on February 1 and August 1. Debt Service requirements are as follows:

June 30	Interest	Principal
2004	\$ 6,150	\$ 65,000
2005	2,100	70,000
Totals	\$ 8,250	\$ 135,000

Total Bonded debt principal as of June 30, 2003, was \$135,000

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose and reconstruction of the jail facility. The fiscal court subsequently entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. Debt service requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 8,073	\$ 7,620
2005	7,575	8,103
2006	7,045	8,617
2007	6,481	9,162
2008	5,882	9,744
2009-2013	18,999	58,809
2014-2015	1,872	29,075
Totals	<u>\$ 55,927</u>	<u>\$ 131,130</u>

Total long term participation agreement principal outstanding as of June 30, 2003, was \$131,130.

Note 6. Capital Leases

A. Enrichment Center

Estill County Fiscal Court entered into a leasing agreement with the Kentucky Association of Counties Leasing Trust for the purpose of construction of a county Enrichment Center. The amount of the lease principal was \$285,000 plus interest at 5.43 percent, plus administrative fees, credit fees, and fiduciary fees. The principal is paid annually and the interest is paid monthly over a 10-year period. The balance of the lease trust as of June 30, 2003 was \$167,000 as shown below:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 9,994	\$ 15,000
2005	9,035	16,000
2006	8,015	17,000
2007	6,932	18,000
2008	5,813	18,000
2009-2012	11,154	83,000
Totals	<u>\$ 50,943</u>	<u>\$ 167,000</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Leases (Continued)

B. Fire Station

On July 20, 2001, the county entered into a lease agreement with the Kentucky Association of Counties for the construction of a Fire Station. The terms of the agreement stipulate a 5-year repayment schedule. The principal is paid annually and the interest with administrative fees, credit fees, and fiduciary fees is paid monthly over the term of the lease. As of June 30, 2003, the principal balance outstanding was \$90,000. Debt service requirements for fiscal years ending June 30, 2004, and thereafter are as follows:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 3,574	\$ 30,000
2005	2,190	30,000
2006	807	30,000
Totals	<u>\$ 6,571</u>	<u>\$ 90,000</u>

C. Road Improvements

The Estill County Fiscal Court entered into a leasing agreement with the Kentucky Association of Counties Leasing Trust for road improvements. The amount of the lease principal was \$495,000 plus interest at 3.25 percent, plus administrative fees, credit fees, and fiduciary fees. Principal, interest, and fees are paid monthly over a 15-year period. The principal balance as of June 30, 2003, was \$488,570 as shown below:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 15,490	\$ 26,249
2005	14,624	27,115
2006	13,729	28,009
2007	12,805	28,933
2008	11,851	29,888
2009-2013	43,799	164,893
2014-2018	14,776	183,483
Totals	<u>\$ 127,074</u>	<u>\$ 488,570</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Leases (Continued)

D. Paver

On June 20, 2001, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a paver. Terms of the agreement stipulate a 3-year repayment schedule with annual payments of \$20,074 on August 1 of each year. As of June 30, 2003, the principal balance outstanding was \$19,989 remaining. Debt service requirements are as follows:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 85	\$ 19,989
Totals	<u>\$ 85</u>	<u>\$ 19,989</u>

E. 911 Equipment

On July 30, 2001, the county entered into a lease agreement with Community Bank of Louisiana for the purchase of 911 equipment. Terms of the agreement stipulate a 3-year repayment schedule with monthly principal and interest payments at a 5% interest rate. As of June 30, 2003, the principal balance outstanding was \$24,198. Debt service requirements for fiscal years ending June 30, 2004, and thereafter are as follows:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 773	\$ 19,237
2005	41	4,961
Totals	<u>\$ 814</u>	<u>\$ 24,198</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Leases (Continued)

F. Case Backhoe

On June 27, 2002, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a Case backhoe. Terms of the agreement stipulate a 5-year repayment schedule with annual payments of \$12,485. As of June 30, 2003, the principal balance outstanding was \$43,822. Debt service requirements for fiscal years ending June 30, 2004, and thereafter are as follows:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 2,821	\$ 9,664
2005	2,007	10,478
2006	1,124	11,361
2007	167	12,319
Totals	<u>\$ 6,119</u>	<u>\$ 43,822</u>

G. Fire Trucks:

On September 4, 2003, the county entered into a lease agreement with Branch Banking and Trust (BB&T) for the purchase of two fire trucks. The terms of the agreement stipulate a 5-year repayment schedule, with payments of \$18,433 starting on September 4, 2003, with the final payment due September 4, 2007. A portion of the payment is paid as and represents payment of interest at an annual interest rate of 4.07%. As of June 30, 2003, the principal balance outstanding was \$81,900. Debt service requirements for fiscal years ending June 30, 2004, and beyond are as follows:

<u>June 30</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 3,333	\$ 15,100
2005	2,719	15,714
2006	2,079	16,354
2007	1,414	17,020
2008	721	17,712
Totals	<u>\$ 10,266</u>	<u>\$ 81,900</u>

Total capital lease principal outstanding, as of June 30, 2003, was \$915,479.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Operating Lease Agreements

A. HVAC System

On April 4, 2002, the county entered into an agreement with BB&T, formally Area Bank, for the financing of the insulation of a new HVAC system. Terms of the agreement stipulate a 5-year repayment schedule with monthly principal and interest payments of \$1,967. The agreement is a variable interest rate loan, thus changes in the interest rate will affect the term of the loan since the monthly payment will remain the same. As of June 30, 2003, the principal balance outstanding was \$82,207.

B. Operating Expenses

In October 2002, the Estill County Fiscal Court entered into a ninety-day note with Branch Banking and Trust (BB&T) for operating expenses. This note was subsequently renewed as a lease agreement, which provided for accrued interest to be paid monthly at a variable rate and principal due on November 25, 2004. As of June 30, 2003, the principal balance outstanding was \$75,000.

The total of operating leases as of June 30, 2003, was \$157,207.

Note 8. Insurance

For the fiscal year ended June 30, 2003, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Event

Subsequent to June 30, 2003, a pending civil lawsuit against the county was settled out of court, with the county having to pay \$37,500.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ESTILL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,309,520	\$ 1,204,370	\$ (105,150)
Road and Bridge Fund	1,136,271	987,441	(148,830)
Jail Fund	357,119	91,242	(265,877)
Local Government Economic Assistance Fund	48,710	40,523	(8,187)
<u>Special Revenue Fund Type</u>			
CSEPP Fund	450,950	306,156	(144,794)
State Grant Fund	174,093	127,780	(46,313)
CDBG Fund	17,000	17,000	
CMRS Fund	10,146	22,175	12,029
Totals	<u>\$ 3,503,809</u>	<u>\$ 2,796,687</u>	<u>\$ (707,122)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,503,809
Add: Budgeted Prior Year Surplus			245,219
Less: Other Financing Uses			<u>(268,312)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,480,716</u>

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SCHEDULE OF OPERATING REVENUE

ESTILL COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE			Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	
Taxes	\$ 768,377	\$	\$	\$ 768,377
In Lieu Tax Payments	10,507			10,507
Excess Fees	57,404			57,404
Intergovernmental Revenues	1,241,576	473,095		1,714,671
Charges for Services	203,056			203,056
Miscellaneous Revenues	42,148	16		42,164
Interest Earned	508		641	1,149
Total Operating Revenue	<u>\$ 2,323,576</u>	<u>\$ 473,111</u>	<u>\$ 641</u>	<u>\$ 2,797,328</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ESTILL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 434,013	\$ 426,341	\$ 7,672
Protection to Persons and Property	602,737	581,322	21,415
General Health and Sanitation	45,093	42,817	2,276
Social Services	47,920	44,476	3,444
Recreation and Culture			
Roads	771,473	730,767	40,706
Airports			
Debt Service	70,611	53,672	16,939
Capital Projects	199,000	199,000	
Administration	514,631	470,579	44,052
Total Operating Budget - General Fund Type	\$ 2,685,478	\$ 2,548,974	\$ 136,504
Other Financing Uses:			
Principal on Notes Payable	42,793	42,793	
Jail Participation Agreement - Principal on Lease	7,166	7,166	
Transfers to Public Property Corporation Fund	68,504	68,504	
Capital Lease Agreements- Principal on Lease	149,849	149,849	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 2,953,790</u>	<u>\$ 2,817,286</u>	<u>\$ 136,504</u>

ESTILL COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 446,623	\$ 328,432	\$ 118,191
General Health and Sanitation	22,593	3,010	19,583
Capital Projects	121,500	121,483	17
Administration	204,522	28,092	176,430
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 795,238	\$ 481,017	\$ 314,221

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Estill County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- 2003-5 The Fiscal Court Should Pay Invoices Within Thirty (30) Days
- 2003-6 The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources
- 2003-7 The Fiscal Court Should Limit Expenditures For The First Half Of Each Fourth Year

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Estill County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- 2003-1 The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- 2003-2 The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen
- 2003-3 Salary Payments Should Be Made In Accordance With The Fiscal Court's Administrative Code
- 2003-4 The Fiscal Court Should Establish A Policy To Address Compensatory Time And Proper Supporting Documentation Should Be Maintained

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all the reportable conditions described above, to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 25, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Estill County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 25, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Estill County.
2. Four reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. All of the conditions are reported as material weaknesses.
3. Three instances of noncompliance material to the financial statements of Estill County were disclosed during the audit.
4. No reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. No audit findings relative to the major federal awards programs for Estill County are reported in Part C of this schedule.
7. The program tested as a major program was: Chemical Stockpile Emergency Preparedness Program, CFDA #97.040
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

Reference Number 2003-1

The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures

During the course of our engagement, we noted the following internal control weaknesses with regard to expenditures:

- The County Treasurer did not co-sign all checks
- Claims approved for payment by the fiscal court were not matched with invoices submitted for payment
- All claims were not approved by the Fiscal Court prior to payment.

We recommend the County Treasurer co-sign all checks, the payment for claims approved by fiscal court agree with invoices as submitted, and the fiscal court approve all claims prior to payment.

County Judge/Executive Wallace Taylor's Response: We have began a new system to correct this problem, in which we match every invoice with corresponding purchase orders. All checks are now co-signed by Treasurer.

Former County Judge/Executive Dwight Arvin's Response: No response

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Reference Number 2003-2

The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen

Our audit revealed that required accounting records and financial reports are not being maintained for the Jail Canteen Fund. Specifically noted was the absence of daily checkout sheets, receipt and disbursement journals, monthly bank reconciliations, and an annual financial report submitted to the County Treasurer. KRS 441.135 states, "The jailer may maintain a canteen fund for the benefit of the prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation. All profits from the canteen shall be used for the benefit or recreation of the prisoners. The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." The state local finance officer has prescribed the minimum accounting and reporting requirements pursuant to KRS 68.210. These are to be utilized by county jailers for jail canteen funds maintained pursuant to KRS 441.135. The accounting and reporting requirements are as follows:

- Daily Check-Out Sheets
- Jail Canteen Fund Receipt and Disbursement Journals
- Jail Canteen Fund Annual Financial Report (submitted to County Treasurer)
- Jail Canteen Monthly Bank Reconciliation

KRS 67.080 gives the fiscal court the authority to "...cause correct accounts and records to be kept of all receipts and disbursements of the public funds of the county." We recommend the fiscal court require the jailer to maintain complete and accurate records of the financial activity of the Jail Canteen Fund and submit an annual financial report to the County Treasurer.

County Judge/Executive Wallace Taylor's Response: We now require the jailer to maintain complete and accurate records.

Former County Judge/Executive Dwight Arvin's Response: No response

Jailer James Morris' Response: Will attempt to maintain records.

Reference Number 2003-3

Salary Payments Should Be Made In Accordance With The Fiscal Court's Administrative Code

Our testing of payroll revealed a substantial amount of salary payments to former and current county employees that were not in accordance with the administrative code (personnel policy) established by the fiscal court. The county's personnel policy established the following criteria with regard to leave time for county employees:

- 1) Vacation (Annual Leave) – All employees occupying full-time, regular positions that have completed one year of employment with the county shall earn twelve (12) days or ninety-six (96) hours of annual leave per year. An employee may accumulate a maximum of twenty (20) working days or one hundred forty (140) hours. Any employee who terminates employment with the county shall be compensated for unused annual leave.

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Reference Number 2003-3 (Continued)

- 2) Sick Leave - An employee occupying a regular full-time position shall receive twelve (12) days or ninety-six (96) hours of sick leave per year. Employees will not be compensated for accumulated sick leave upon termination of employment.

The following table reflects fringe benefit payments to former county employees during the period July 1, 2002 through December 31, 2002.

Position	Leave Time - Type	Hours	Amount Paid
Former Deputy County Judge/Executive	Sick	106	\$ 1,321.82
Former County Judge/Executive Administrative Assistant	Sick	54.5	\$ 500.31

As stated in the county's sick leave policy above, "employees will not be compensated for accumulated sick leave upon termination of employment".

The following table reflects fringe benefit payments to current county employees during the period July 1, 2002 through December 31, 2002. The payments reflected in the table were made in addition to the employee's normal payroll amounts.

Position	Leave Time - Type	Hours	Amount Paid
Road Supervisor	Sick	119	\$ 1,362.55
	Vacation	382	4,373.90
Courthouse Custodian	Sick	159	\$ 1,050.99
	Vacation	199.5	1,318.70
CSEPP Coordinator	Sick	80	\$ 1,844.06
	Vacation	120	2,329.73
Deputy Jailer	Vacation	149	\$ 1,032.57
County Treasurer	Vacation	40	\$ 374.00
Dispatcher	Vacation	26	\$ 180.18
Dispatcher	Vacation	152	\$ 1,130.88
Dog Warden	Vacation	40	\$ 360.80
Road Worker	Vacation	40	\$ 363.20

As stated in the county's annual leave policy above, "Any employee who terminates employment with the county shall be compensated for unused annual leave." Current county employees were not eligible for the vacation or sick leave payments reflected.

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Reference Number 2003-3 (Continued)

We recommend that payments to county employees be made in accordance with the terms established in the fiscal court's administrative code. Additionally, we recommend the county attorney review these findings to determine if further action is necessary.

County Judge/Executive Wallace Taylor's Response: We have strongly addressed this issue, these all seem to happen at election time.

Former County Judge/Executive Dwight Arvin's Response: The county personnel policy designates the County Judge as personnel administrator over functions and duties of personnel. It also authorizes the County Judge to issue administrative memorandum that becomes policy when approved by the court. My records indicate that a memo was issued but I can't confirm that it was approved by the court.

Reference Number 2003-4

The Fiscal Court Should Establish A Policy To Address Compensatory Time And Proper Supporting Documentation Should Be Maintained

Our testing of payroll revealed salary payments to former county employees for compensatory time. The fiscal court did not establish procedures for the accrual, use, or payment for compensatory time. We could not find evidence for tracking the accrual or use of compensatory leave balances and there was no documentation supporting the payments made to the former employees.

The following table reflects payments to former county employees during the period July 1, 2002 through December 31, 2002.

Position	Leave Time - Type	Hours	Amount Paid
Former Deputy County Judge/Executive	Compensatory	620	\$ 7,731.40
Former County Judge/Executive Administrative Assistant	Compensatory	100	\$ 918.00

As stated above, there was no established policy for the payments made for "compensatory" leave and we could find no supporting documentation for these payments. We recommend the fiscal court establish policies to address this form of leave and appropriate supporting documentation should be maintained

County Judge/Executive Wallace Taylor's Response: Personnel policy did not address this issue. How can someone be paid for something not addressed in that and was this approved by the fiscal court.

Former County Judge/Executive Dwight Arvin's Response: Payments for comp-time were documented in the payroll ledger, computer, and time records. Federal labor laws applied.

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

NONCOMPLIANCES:

Reference Number 2003-5

The Fiscal Court Should Pay Invoices Within Thirty (30) Days

During the course of our engagement, we noted numerous invoices received by the fiscal court were not paid within thirty (30) working days. KRS 65.140 states, in part, "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." We recommend the members of the fiscal court monitor financial transactions of the county to ensure that invoices are paid within thirty working days as required by KRS 65.140.

County Judge/Executive Wallace Taylor's Response: We have set policies to correct these problems and have implemented stronger internal control.

Former County Judge/Executive Dwight Arvin's Response: No response

Reference Number 2003-6

The Fiscal Court Should Not Obligate Funds In Excess Of Revenue Sources

During the course of our engagement, we noted the following:

In October 2002 the Fiscal Court borrowed \$100,000 for operating expenses.

- As of December 31, 2002, the county had an available cash balance of \$47,391, and unpaid invoices of \$535,436. The result was \$488,045 more liabilities than available cash balance.
- In March 2003 the Fiscal Court entered into a \$495,000 lease agreement in order to pay the unpaid invoices noted above.

KRS 68.110 states, in part, "The fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year." We recommend the fiscal court refrain from obligating funds in excess of revenue sources by ordering goods and services only when adequate cash is available to cover the expenditure.

County Judge/Executive Wallace Taylor's Response: Figures as of 12/31/02 was not what the current administration since we did not take office until 1/6/03. We are trying to correct.

Former County Judge/Executive Dwight Arvin's Response: Since the county operates on a fiscal year the end of a calendar year balance doesn't truly reflect the county's financial condition. If you look at FY 2002-2003 in its entirety it's a different situation. Unanticipated revenues were amended into the budget after December 31, 2002: March 24, 2003 - \$406,466; March 31, 2003 - \$495,000 (Borrowed Money); June 16, 2003 - \$294,977. Subtract the borrowed money from the total of the amendments and it leaves \$701,463 in unanticipated revenues. The county finished FY 2002-2003 with a \$317,000 surplus. If you look at the entire FY it is my opinion that KRS 68.110 would not apply.

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Reference Number 2003-7

The Fiscal Court Should Limit Expenditures For The First Half Of Each Fourth Year

During our audit we discovered that the Fiscal Court expended or encumbered more than eighty-six percent (86%) of the County's budget during the first half of the fiscal year. KRS 68.310 states, no county shall, during the first half of any fourth fiscal year, beginning with the fiscal year 1998-1999, encumber or expend more than sixty-five percent (65%) in any fund budgeted for that fiscal year. We recommend in the future the Fiscal Court monitor expenditures and encumbrances in order to comply with KRS 68.310.

County Judge/Executive Wallace Taylor's Response: After what we started with, our administration understands and fully intends to comply.

Former County Judge/Executive Dwight Arvin's Response: On June 2, 2002 the county experienced a devastating flash flood. Numerous roads washed out denying access to residential areas. An emergency declaration was implemented. This situation required unanticipated expenditures from county funds in the early part of the year. 2003 these funds were reimbursed by FEMA and the County received approximately \$213,000.

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures - This comment has not been corrected and is repeated in the current year **(2003-1)**.
- The Fiscal Court Should Adopt A Better System Of Internal Controls Over CSEPP Expenditures To Ensure Compliance With Grant Requirements - This comment was partially corrected in current year, however uncorrected parts are included in the current year **(2003-1)**.
- The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen - This comment has not been corrected and is repeated in the current year **(2003-2)**.
- The Fiscal Court Should Pay Invoices When Due And Should Not Obligate Funds In Excess Of Revenue Sources - This comment has not been corrected and is repeated in the current year **(2003-5 and 2003-6)**.
- The Fiscal Court Should Pay All Loans By The End Of The Fiscal Year They Were Issued - This comment has been corrected
- The Fiscal Court Should Maintain A Bid File - This comment has been corrected.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT

None

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 6,741
Storm Cleanup (CFDA #83.516)	Not Available	191,276
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Chemical Stockpile Emergency Preparedness Program (CFDA #97.040)	M-02183542	<u>304,640</u>
Total Cash Expenditures of Federal Awards		<u>\$ 502,657</u>

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Estill County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

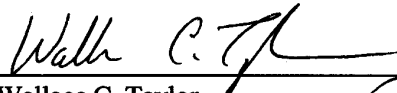
ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

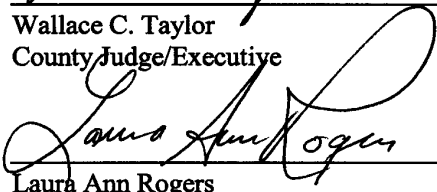
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Estill County Fiscal Court hereby certifies that assistance received from Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Wallace C. Taylor
County Judge/Executive



Laura Ann Rogers
County Treasurer

